

**DEPARTMENT OF EDUCATION
INCLUDING
DIRECT AID TO PUBLIC EDUCATION
AND
VIRGINIA SCHOOLS FOR DEAF AND BLIND**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2006**



AUDIT SUMMARY

Our audit included the Department of Education, Direct Aid to Public Education, the Virginia School for the Deaf and Blind in Staunton, and the Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton. Our audit for the year ended June 30, 2006, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- recommendations for improving internal controls and its operations, but we do not consider matters involving internal control and its operation to be material weaknesses; and
- no instances of noncompliance or other matters that required reporting.

Enhance Documentation and Internal Controls over SOQ Model

The Department of Education (Department) has developed over time a complex Standards of Quality (SOQ) model application and the Direct Aid Budget Worksheets (DABS) to budget and prepare the initial distribution of over \$6 billion of financial assistance to localities. The DABS uses a series of Excel worksheets to extract and calculate the funding.

The Budget Section maintains the system, develops both user and system documentation, and documents changes to the system. All of these critical functions are the responsibility of the Budget Section. While the Budget Section has accomplished all of these tasks, this situation represents in our opinion a significant risk to the Department.

While spreadsheet applications provide a change management environment which is user friendly and user driven, this change management environment lacks formal testing, documentation, and verification. Additionally, these spreadsheet applications evolve over time and the source, use, and verification process for both inputs and outputs relies on users to remember or document the process.

Our concern is not with the SOQ model, but the change controls surrounding the process. This SOQ function has a greater impact on the Department's operation and visibility than most other operations if an error would occur. Adequate change controls attempt to minimize the risk of error due to changes in formulas, calculation, data transfer, or other processing function.

We recommend that the Department undertake a risk assessment over the SOQ process that considers the adequacy of the documentation for both the system and the user, the loss of key personnel, adequacy of trained personnel, and the effect of these types of problems on the processing of information. We believe that this risk assessment be conducted independently of the Budget Section since their losses are the risk the Department is attempting to measure. The risk assessment should consider losses at critical junctures in the budgeting process and how the Department would recover from those losses. Based on the risk assessment, the Department should develop a plan to address these risks.

The Department of Education is the designated fiscal agent for the Comprehensive Services Act and we issue a separate report on this entity.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1- 3
DEPARTMENT OVERVIEW	3
FINANCIAL INFORMATION:	
Direct Aid to Public Education	4- 5
Central Office Operations	6- 7
Virginia Schools for the Deaf and Blind	7- 9
INDEPENDENT AUDITOR’S REPORT	10-11
AGENCY RESPONSE	12-13
DEPARTMENT OF EDUCATION OFFICIALS	14

AUDIT FINDINGS AND RECOMMENDATIONS

Enhance Documentation and Internal Controls over SOQ Model

The Department of Education has developed over time a complex Standards of Quality (SOQ) model application and the Direct Aid Budget Worksheets (DABS) to budget and prepare the initial distribution of over \$6 billion of financial assistance to localities. The DABS uses a series of Excel worksheets to extract and calculate the funding.

The Budget Section has seven staff of which only three to four persons completely control the development, usage and application of the process. These individuals have responsibility for not only controlling the model, but actually developing and executing the application under various scenarios, during both budget development for the Governor, and providing various results based upon requests from legislative committees and staff. This environment places this small staff in the position of operating under conditions that require extensive overtime and quick deadlines while maintaining the integrity of the applications.

The entire process has evolved over time without many of the development and application controls associated with complex computer applications of this size and sensitivity. In addition, the Budget Section must not only respond to various scenarios, but program and verify the changes and then verify and prove the results.

The Budget Section maintains the system, develops both user and system documentation, and documents changes to the system. All of these critical functions are the responsibility of the Budget Section. While the Budget Section has accomplished all of these tasks, this situation represents in our opinion a significant risk to the Department.

While spreadsheet applications provide a Change Management environment which is user friendly and user driven, this change management environment lacks formal testing, documentation, and verification. Additionally, these spreadsheet applications evolve over time and the source, use and verification process for both inputs and outputs relies on users to remember or document the process.

The Department's management needs to consider the risk associated with applications that control the allocation of over \$6 billion that are subject to maintenance by a small group, who have worked under significant deadline pressures. Additionally, there is the risk that the loss of staff at a critical juncture would provide insufficient time and resources to properly train new staff on the operations of the system.

Our concern is not with the SOQ model, but the change controls surrounding the process. This SOQ function has a greater impact on the Department's operation and visibility than most other operations if an error would occur. Adequate change controls attempt to minimize the risk of error due to changes in formulas, calculation, data transfer or other processing function.

We recommend that the Department undertake a risk assessment over the SOQ process that considers the adequacy of the documentation for both the system and the user, the loss of key personnel, adequacy of trained personnel, and the effect of these types of problems on the processing of information. We believe that this risk assessment be conducted independently of the Budget Section since their losses are the risk the Department is attempting to measure. The risk assessment should consider losses at critical junctures in the budgeting process and how the Department would recover from those losses. Based on the risk assessment, the Department should develop a plan to address these risks.

Strengthen Internal Controls over Oracle Financial Systems Access

We found three individuals having system's access as both super-user and system administrator and have financial, budget, or accounting duties. These are very powerful access levels that allow individuals to perform many functions, both in the application and the data base, with little or no method of determining what the individuals have done. Couple the level of access granted with the individuals' other duties and there is risk that one of the individuals could manipulate accounting information and other data without detection. Failure to separate program administration from systems access could lead to individuals creating plausible false entries, either through multiple existing accounts or through fictitious accounts. Given the number of people with systems access, determining responsibility for mistakes or deliberate manipulation is problematic.

We recommend that the Department separate the systems administration from financial, budget, and accounting duties. We also recommend that the Department reduce the number of people with super-user and systems administration access.

Virginia School for Deaf, Blind & Multi-Disabled at Hampton

Non-Compliance Payroll Policies

Two hourly employees exceeded their 1,500-hour annual limit before the Superintendent granted a 500-hour extension. One hourly employee exceeded 2,000 hours in one year from their anniversary date after receiving a 500-hour extension. The Department Head did not adequately monitor the employees' hours to ensure that they did not exceed their 1,500-hour annual limit and 2,000-hour limit in the case of the granted extension. Further, school policy requires that the supervisor notify the Superintendent if it is necessary for an employee to exceed the 1,500-hour limit or to exceed the amount of hours approved by an extension.

We recommend that the Department Head assume a more active role in monitoring hourly employees' 1,500-hour annual limit and approved extensions. An extension to the 1,500-hour limit should have the Superintendent's approval before the employee reaches their 1,500 hour limit. Hourly employees that reach their 1,500-hour annual limit should not return to work until their anniversary date, unless the Superintendent authorizes an extension. Likewise, once an employee reaches the amount of the extension, hourly employees should not return to work until their anniversary date. The Superintendent should take corrective action when supervisors allow hourly employees to exceed their 1,500-hour annual limit, or exceed the amount of hours approved by an extension.

Strengthen Internal Controls over CARS Access

We found that an employee had entered and approved the same batch in Commonwealth Accounting and Reporting System (CARS) on 27 separate occasions during fiscal year 2006. Failure to separate the batch entry and batch approval duties could lead to individuals creating plausible false or fraudulent entries in CARS. Given the number of users that have entry and approval access rights at the agency, a proper segregation of duties seems feasible. We recommend that the Department separate the duties of batch entry and approval when dealing with the same batch of transactions. We also recommend that the Department review the current users that have access to CARS and determine whether such access is necessary or reasonable.

Virginia School for Deaf and Blind at Staunton

Strengthen Internal Controls over CARS Access

We found that an employee had entered and approved the same batch in CARS on 82 separate occasions during fiscal year 2006. Failure to separate the batch entry and batch approval duties could lead to individuals creating plausible false or fraudulent entries in CARS. While the limited number of employees may appear to justify a lack of separation of duties, this represents a significant to the Department. We recommend that the Department separate the duties of batch entry and approval when dealing with the same batch of transactions. We also recommend that the Department review the current users than have access to CARS and determine whether such access is necessary or reasonable.

DEPARTMENT OVERVIEW

The Department has four functional areas, described in more detail below:

- Direct Aid to Public Education
- Central Office Operations
- Virginia School for the Deaf and Blind in Staunton; Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton
- Comprehensive Services Act for At-Risk Youth and Families

The Department provides funding to localities for elementary and secondary public education through the Direct Aid to Public Education program. During fiscal year 2006, the Department transferred over \$5.8 billion in state and federal funds to local school divisions. State dollars make up 84.5 percent of these funds, which support the Standards of Quality.

The Department's Central Office supervises the public school systems; provides training and technical assistance; and monitors the compliance with laws and regulations of 132 operational school divisions. The Department assists school divisions, colleges, and universities in helping teachers and other staff improve their skills, and it licenses and certifies school personnel. The Department also serves as the pass-through agency for state and federal funds, and determines the allocation of state money to local school divisions through direct aid to local school divisions.

The Department also maintains operational control over the two schools for the deaf and blind. The schools provide comprehensive instructional programs and services to children with serious auditory and visual impairments, and multi-disabilities that local school divisions cannot serve. The State Board of Education is the governing body of the Virginia Schools for the Deaf and Blind Foundation (Foundation). The Foundation promotes the growth, progress, and welfare of the Schools for the Deaf and Blind.

The Department is the designated fiscal agent for the Comprehensive Services Act for At-Risk Youth and Families (CSA). Central Office staff process pool fund payments to localities for services performed assisting at-risk youth. We issue a separate report for CSA.

FINANCIAL INFORMATION

The Department primarily receives General Fund appropriations, which account for over 84 percent of total funding. The Department also receives federal grants and collects fees for teacher licensure. The Schools for the Deaf and Blind receive funds from local school divisions, federal grants, and income from the Foundation.

The following table summarizes budget and actual operating activity for fiscal year 2006 by the Department's functional areas, and we provide more detailed financial information for each area in this report.

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Direct aid to public education	\$5,780,860,150	\$6,007,179,766	\$5,835,526,489
Central Office operations	112,033,484	137,541,247	118,002,994
Virginia School for the Deaf and Blind in Staunton	7,363,008	8,874,322	8,567,817
Virginia School for the Deaf, Blind and Multi-Disabled in Hampton	<u>6,600,945</u>	<u>7,549,128</u>	<u>7,325,260</u>
Total	<u>\$5,906,857,587</u>	<u>\$6,161,144,463</u>	<u>\$5,969,422,560</u>

Direct Aid for Public Education

The Department acts as a pass-through agency for state and federal funds and determines the allocation of funds to local school divisions. Over \$5.8 billion in state and federal funding goes to local school divisions primarily for public education and local school functions. The following table summarizes these expenses by fund. General funds make up 84.5 percent of this funding.

Budget and Expense Analysis for 2006 – Direct Aid to Public Education

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General funds	\$4,993,736,525	\$4,991,528,866	\$4,931,628,042
Special funds	795,000	795,000	795,000
Commonwealth transportation fund	2,173,000	2,173,000	2,173,000
Trust and agency funds	188,063,525	188,190,800	125,854,700
Federal funds	<u>596,092,100</u>	<u>824,492,100</u>	<u>775,075,747</u>
Total	<u>\$5,780,860,150</u>	<u>\$6,007,179,766</u>	<u>\$5,835,526,489</u>

The difference in General Fund's Direct Aid to Public Education's adjusted budgeted and actual expenses shows that the average daily membership (ADM), while higher than last year, was less than initially estimated during the preparation of the budget. The majority of the variance is due to the difference between the actual sales tax collected and paid to school divisions and the amount appropriated based on the Department of Taxation's revenue estimates.

The variance between budgeted and actual spending of Trust and Agency Funds results from the method of processing disbursements from the Literary Fund. While the Direct Aid to Public Education appropriation includes the use of Literary Funds, the Treasury Department makes the actual disbursements and records the disbursement as an expense in Treasury's budget.

Finally, the increase between the original and final budget in federal funds is a combination of executive and legislative actions to increase federal fund appropriations for additional federal funds anticipated for several federal programs including Title I, No Child Left Behind, and the school lunch program.

The majority of the expenses under the Direct Aid program are transfer payments to localities for several different programs. Standards of Quality funding makes up approximately 58 percent of all aid sent to local school divisions, with another 21 percent from special state revenue sharing, which consists of a portion of net revenue from the state sales and use tax and lottery profits. The following table shows Direct Aid transfer payments by program.

Direct Aid to Public Education Expenses by Program

Standards of quality	\$3,396,794,451	58%
Sales tax and direct lottery	1,248,168,448	21%
Categorical aid	644,814,655	11%
Public school employee benefits	287,493,644	5%
Nutritional services	180,273,409	3%
Other	<u>77,981,882</u>	<u>1%</u>
Total	<u>\$5,835,526,489</u>	<u>100%</u>

The Standards of Quality set minimum standards for programs and services each local school board should provide. The Department allocates funds to each locality based on demographic and census information gathered from local school divisions, following the provisions outlined in the Appropriation Act and federal grant agreements. Sales and use tax disbursements go to each school division using census data of school-age children within the school divisions. The school divisions receive lottery profit allocations based on the number of students reported for each school division in the spring multiplied by the per pupil amount determined by the General Assembly.

The Department calculates most state entitlement payments based on the ADM for each school division and the total departmental appropriation. At the beginning of the fiscal year, the Department makes a preliminary calculation of 24 equal installment payments for each school division. After each school division reports its actual average daily membership as of March 31, the Department adjusts the remaining installment payments to reflect each school division's actual average daily membership. The following table shows expenditures in direct aid over the last five fiscal years. In 2006, total direct aid increased nearly \$367 million over 2005 levels due to increased average daily membership and increased per-pupil appropriations.

Costs per Pupil for Fiscal Years 2002-2006

	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2003</u>	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2005</u>	<u>Fiscal Year 2006</u>
Direct aid to localities expenses*	\$4,426,272	\$4,588,903	\$4,819,436	\$5,468,157	\$5,835,526
Total students**	1,143,018	1,156,471	1,165,905	1,175,734	1,184,078
Per pupil expenses***	3,872	3,968	4,134	4,651	4,928
Total teachers****	89,171	91,083	92,634	94,693	96,857

*Dollars in thousands

**Final March 31, unadjusted average daily membership (ADM)

***Direct Aid to localities expenditures divided by total students

****Estimate based on localities' annual school reports as of October 16, 2006

Central Office Operations

2006 Budget and Expense Analysis – Central Office

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General funds	\$ 61,264,986	\$ 64,697,966	\$ 61,692,051
Special funds	2,812,340	3,859,381	2,419,202
Commonwealth transportation fund	218,904	224,650	218,697
Trust and agency	193,613	200,864	193,075
Federal trust funds	<u>47,543,641</u>	<u>68,558,386</u>	<u>53,479,700</u>
Total	<u>\$112,033,484</u>	<u>\$137,541,247</u>	<u>\$118,002,994</u>

The increase in the Adjusted Budget as compared to the original budget results from two actions. First, the approval by the General Assembly to carry forward fiscal year 2005 unspent balances in the amount of \$2,890,767 with the majority of the carry forward earmarked for the support of the Petersburg Public Schools. Second, is a General Fund increase of \$687,324 to cover the increase in payroll and fringe benefits.

The variance between budgeted and actual expenses of General Funds reflects staffing vacancies which generally run around ten percent, as well as lower costs for the Standards of Learning tests and state accreditation activities due to the new contract signed with NCS Pearson. The variances in the budget and actual federal spending occur because the Department compiles the estimates of federal awards up to two years in advance. The Department does not receive notification of actual award amounts or new programs until the beginning of the fiscal year, which is after the approval of the original budget. .

As can be seen in the table below, Central Office's largest category of expense is contractual services. The largest contractual provider to the Department, Harcourt Brace for the first quarter of fiscal year 2006, and NCS Pearson for the balance of the year, administers, grades, and evaluates Standards of Learning tests and other tests associated with the implementation of the No Child Left Behind Act. The Department paid \$45.4 million in fiscal year 2006 to these vendors for these services. In October 2005, the Department switched vendors to Pearson Educational Measurement under a six-year contract totaling \$139.9 million.

Central Office Operations Fiscal 2006 Expense Analysis

Contractual services	\$ 74,964,696
Personal services	26,416,048
Transfer payments	13,309,048
Continuous charges	1,576,420
Equipment	930,912
Supplies and materials	<u>805,870</u>
Total	<u>\$118,002,994</u>

Virginia Schools for the Deaf and Blind

The Virginia School for the Deaf and Blind in Staunton (School in Staunton) and the Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton (School in Hampton) provide comprehensive instructional programs and services to children with serious auditory and visual impairments and multiple disabilities that local school divisions cannot serve.

At the direction of the General Assembly, the Virginia Board of Education has considered consolidating the schools for the deaf, blind, and multi-disabled at the Staunton school site. The General Assembly has authorized \$2.5 million for the preliminary architectural and engineering studies.

Budget and Expense Analysis for Fiscal 2006
Virginia School for the Deaf and Blind at Staunton

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General funds	\$6,434,906	\$7,255,570	\$7,132,428
Special funds	449,102	887,102	707,886
Federal trust funds	<u>479,000</u>	<u>731,660</u>	<u>727,503</u>
Total	<u>\$7,363,008</u>	<u>\$8,874,322</u>	<u>\$8,567,817</u>

Budget and Expense Analysis for Fiscal 2006
Virginia School for the Deaf, Blind, and Multi-Disabled at Hampton

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General funds	\$6,138,320	\$6,846,506	\$6,802,184
Special funds	265,500	265,500	100,000
Federal trust funds	<u>197,125</u>	<u>437,122</u>	<u>423,076</u>
Total	<u>\$6,600,945</u>	<u>\$7,549,128</u>	<u>\$7,325,260</u>

Personal service costs account for the majority of expenses at both schools. The table below shows fiscal year 2005 operating expenses for the Schools for the Deaf and Blind broken down by type of expense.

Fiscal 2006 Operating Expenses by Type
Virginia Schools for the Deaf and Blind

	<u>Staunton</u>	<u>Hampton</u>	<u>Total</u>	<u>Percentage</u>
Personal services	\$6,776,726	\$5,681,396	\$12,458,122	78.8%
Contractual services	694,700	769,163	1,373,863	8.7%
Supplies and materials	443,583	465,197	908,780	5.8%
Continuous charges	208,167	251,245	459,412	2.9%
Equipment	408,257	53,826	462,083	2.9%
Other	<u>34,384</u>	<u>104,433</u>	<u>138,817</u>	<u>0.9%</u>
Total	<u>\$8,567,817</u>	<u>\$7,325,260</u>	<u>\$15,801,077</u>	<u>100%</u>

The Schools for the Deaf and the Blind had capital expenditures of \$360,000 during fiscal year 2006. This amount includes over \$260,000 for building improvements and \$99,000 for motor vehicles. The building improvement projects are not new capital projects but rather represent the continuation of ongoing projects.

The School in Staunton serves 114 students including 90 residential students at an average per-pupil cost of \$75,116. The School in Hampton serves 53 students including 30 residential students at an average per-pupil cost of \$136,040. Hampton's per-pupil costs were significantly higher this year than last year because of its declining enrollment. As existing students graduate and leave, the school is not replacing these students, because of the uncertainty over the future of the school. Overall, the number of students served by the Schools for the Deaf and Blind decreased by 18.9 percent over the prior year.

Virginia Schools for the Deaf and Blind
Cost per Pupil for Fiscal Years 2005 and 2006

	<u>Staunton</u>		<u>Hampton</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Operating Expenses	\$7,559,927	\$8,567,817	\$6,455,619	\$7,325,260
Total Students	140	114	66	53
Per Pupil Expenses	53,999	75,156	97,812	138,212

The Foundation supports and aids the Schools for the Deaf and the Blind in the existing and future enterprises involving the Schools. The Foundation administers gifts, grants, bequests, and devices consistent with their terms and for the benefit of the Schools for the Deaf and Blind. The State Board of Education approves the Foundation's budget and acts as its governing board. The Assistant Superintendent of Finance serves as the Secretary/Treasurer of the Foundation, oversees the actions of the Foundation investor, and reports financial activities to the Board of Education.

Annually, the Schools receive income from the Foundation's investments, which they must spend in accordance with a plan submitted to the Foundation's board. At December 31, 2005, the market value of the Foundation's investment portfolio was \$2,796,917, having earned \$122,999 during calendar year 2005. The Board approved calendar year 2005 disbursements to the School in Staunton of \$30,514 and to the School in Hampton of \$9,011.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

December 6, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Department of Education including the Direct Aid to Public Education, the Virginia School for the Deaf and Blind in Staunton, and the Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton** for the year ended June 30 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objective was to evaluate the accuracy of Department of Education's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2006 and test compliance for the Statewide Single Audit. In support of this objective, we evaluated the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in and the Department's Oracle Financials System, reviewed the adequacy of Department's internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Allocations of Direct Aid to Localities
- Federal grant revenues and expenses
- Contractual services expenses
- Payroll expenses
- Appropriations
- Network Security

We performed audit tests to determine whether the Agency's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Agency's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses. We confirmed investment portfolio balances for the Virginia Schools for the Deaf and Blind Foundation with outside parties.

Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and the Department's Oracle Financials System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Department's Oracle Financials System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management on November 27, 2006. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

JEA:sks
sks:25



COMMONWEALTH of VIRGINIA

DEPARTMENT OF EDUCATION

P.O. Box 2120
Richmond, Virginia 23218-2120

BILLY K. CANNADAY, JR., Ed.D.
Superintendent of Public Instruction

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December 6, 2006

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218-1295

Dear Mr. Kucharski:

I appreciate the opportunity to respond to the findings of the audit completed by the Auditor of Public Accounts of the Department of Education, Direct Aid to Public Education, the Virginia School for the Deaf and Blind at Staunton, and the Virginia School for the Deaf, Blind, and Multi-Disabled at Hampton, for the year ended June 30, 2006. I am pleased that the audit found proper recording and reporting of transactions in the Commonwealth Accounting and Reporting System (CARS), no matters of internal control that were of a material weakness, and no instances of noncompliance that required reporting. The audit report contains several recommendations for improvement that will be the focus of agency management and staff. My comments on the audit recommendations for the four agencies audited follow.

Virginia Department of Education

Regarding the recommendation to separate system administrator access from user access to the Oracle Financials accounting system, system administrator access will be transferred to designated staff within the DOE Technology Division. These staff have no financial, budget, or accounting duties or responsibilities. Staff in the Finance Division with user access to the Oracle Financials system will not be granted system administrator access.

Direct Aid to Public Education

Regarding the recommendation to enhance documentation and internal controls over the Standards of Quality (SOQ) funding model and the Direct Aid funding spreadsheet, staff will continue to make enhancements in this area given limited staff resources and competing demands. In addition, a risk assessment of this area will be conducted by staff outside the Budget Office.

Mr. Walter J. Kucharski
December 6, 2006
Page Two

Guidance is requested from APA on suggested models of documentation and internal controls that can be applied to the SOQ funding model and the Direct Aid budget spreadsheet to implement this recommendation.

Additional clarifying comments related to this finding are contained in the attached document.

Virginia School for the Deaf and Blind at Staunton

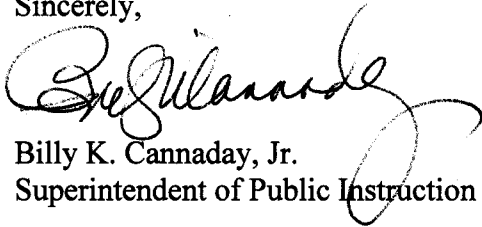
Action will be taken to separate batch entry and batch approval duties for transactions in CARS. Staff access to CARS will be reviewed to determine that it is necessary or reasonable.

Virginia School for the Deaf, Blind, and Multi-Disabled at Hampton

Action will be taken to separate batch entry and batch approval duties for transactions in CARS. Staff access to CARS will be reviewed to determine that it is necessary or reasonable. Action will be taken to adequately monitor compliance with the 1,500-hour annual limit and approved annual hour extensions for hourly employees.

Again, thank you for the opportunity to comment on this year's audit of the Department of Education and related agencies.

Sincerely,



Billy K. Cannaday, Jr.
Superintendent of Public Instruction

BKCJr/kd
Attachment

DEPARTMENT OF EDUCATION

Billy K. Cannaday
State Superintendent of Public Instruction

BOARD MEMBERS
As of June 30, 2006

Mark E. Emblidge
President

Ella P. Ward
Vice President

Thomas M. Brewster
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David L. Johnson

Gary L. Jones
Kevin L. Moore
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